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# L. R. B. & M. JOURNAL

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## Some Aspects of Examinations of the Accounts of Decedents' Estates and Trusts*

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*(New York Office)*

It is the purpose of this paper to give a brief outline of the procedure incidental to the audit or examination of estates and trusts. While fiduciary accounting presents only a few principles which differ from commercial accounting, the procedure to be used is as specialized as that used for stock brokerage, banks, insurance companies and the like.

A very necessary prerequisite for the accountant who is to specialize in fiduciary work is a working knowledge of testamentary law. The present law governing the administration of estates in the State of New York (known as "The New Estate Law") was made effective September 1, 1930, (Chapter 175 of the Laws of 1930, amending the Decedent's Estate Law, Surrogate's Court Act, Real Property Law, Civil Practice Act and Personal Property Law.) Copies can be obtained at most of the larger banks or can be purchased for a nominal sum.

Many technical terms are used by the courts and lawyers and there are submitted on page 8 following definitions of the more important ones.

### Audit of an Executor's or Administrator's Accounts

*Principal or Corpus*

1. Securities or other evidences of indebtedness should be counted at the start of engagement. The date of the count should coincide with the "as of" date of the filing of the executor's or administrator's account of proceedings. When inspecting securities care should be exercised to see that registered securities are in the name of the executor or administrator in his fiduciary capacity, or in the name of the estate of the decedent.

2. Verify by correspondence securities or other assets in safe-keeping at the date of the accounting.

3. Call for certified copy of will and make excerpts therefrom. Annexed hereto (Exhibit A) are excerpts taken from a will having varied features.

4. Obtain certified copy of letters testamentary or letters of administration in order to ascertain date fiduciary assumed duties; etc.

5. Call for original inventory or transfer tax appraisal sheets and trace

* *Although this article has been written primarily with respect to procedure in New York, the principles and much of the procedure would also apply in most other states.*

assets scheduled on the final inventory or transfer tax appraisal, thereto. Give particular attention to possibility of omissions or duplications and mathematical errors, such as accrued interest on bonds, etc.

6. Trace assets as scheduled in above to books of account in order to verify that they have been properly entered therein.

7. Scrutinize such items as cash dividends accrued, interest on bonds accrued, etc. In New York, cash dividends declared by the issuing company prior to the decedent's death and interest accrued to the date of the decedent's death are part of the corpus of the estate; cash dividends declared by the issuing company after the decedent's death and interest accrued after the decedent's death are income to the estate. In connection with stock or extraordinary cash dividends declared subsequent to death, they are corpus of the estate unless:

(a) Otherwise stipulated in the will.

(b) The testator died prior to May 17, 1926, in which event the Osborne rule (209 N. Y. 450) is to be applied.

(See excerpt from Osborne rule and example of application of same attached hereto and marked Exhibit B. This rule, however, has but slight application to an executor's or administrator's account, as it concerns the apportionment of extraordinary dividends, whether in stock or in cash, between the principal and income of a trust fund, and is affected by the earnings of the corporation during the period from the establishment of the trust to the date of the declaration of the dividend.)

8. Verify assets discovered by executor since the original appraisal and inventory.

9. Under certain wills executors are permitted to reinvest funds during the period of administration. In this event, the securities should be reviewed for the purpose of ascertaining if they are of character permitted by the testator's will or by law. Any reinvestments of income should be segregated and independently verified.

10. Prepare from books of account as a basis for preparation of the account of proceedings, and also as a work sheet for the verification of both principal and income, a schedule similar to that shown in Exhibit C attached hereto.

11. At this point comparison should be made of the security count and other verifications made at the commencement of the examination with the items of principal listed in Exhibit C.

12. All payments exceeding $20 for the following should be supported by vouchers evidencing the particulars of transactions:

*Payments of principal:*

Funeral expenses
Debts of decedent
Administration expenses
Distribution of assets

13. Consideration should be given to the following matters usually affecting the principal or corpus of an estate:

(a) Outstanding checks at the date of decedent's death become void as such and the amounts which they represent become debts of the decedent payable out of corpus.

(b) If the deceased had a partnership interest in any enterprise, in valuing his share of such partnership, good will should be taken into consideration. Where stock in close corporations is owned by the estate, good will should also be considered.

(c) Expenses paid during executorship are payable out of principal, not income, except expenses against income such as expenses against improved real estate which are chargeable against income derived therefrom. A discount of 5 per cent. is allowed by New York State for payment of inheritance taxes within six months after the decedent's death.

## REPORT ON STOCK DIVIDEND TO BE APPORTIONED BETWEEN PRINCIPAL AND INCOME

**PART I. (This part of form to be filled in by Banking Office)**

Office____________________ Title of Trust____________________

Name of Company____________________

No. of shares originally held____________________ Date of acquisition____________________

Previous stock dividends of this Company received in the Trust were treated as follows:

| As Principal | | | As Income | |
|---|---|---|---|---|
| Date Received | Shares | Cash Adjustment | Shares | Cash Adjustment |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| Total | | | | |

No. of shares held in principal just before present stock dividend____________________

Particulars of present dividend: Declared__________ Paid to holders of record__________ on__________

Rate of Dividend__________ Shares received__________ Cash adjustment__________

NOTE—Any difference not accounted for above between number of shares held just before present stock dividend and number originally held should be explained on back of page. Also, disposition of proceeds from sale of rights previously received should be indicated.

## DETERMINATION OF PRESENT STOCK DIVIDEND AS PRINCIPAL OR INCOME

**PART II. (This part of form NOT to be filled in by Banking Office)**

***Computation of Book Values***

| Item | Particulars | No. of Shares | Book Value per Share | Total Book Value |
|---|---|---|---|---|
| A. | Actual book value per share on date of acquisition - - - - - - - - - | - - - - - | $ | |
| B. | Add: Adjustment per share (for explanation see "Remarks") - - - - - | - - - - - | | |
| C. | Book value of original shares to be kept good - - - - - - - - - - - - - | | $ | $ |
| D | Previous dividends treated as principal: Number of shares of stock - - | | | |
| | Cash adjustment received - - | - - - - - | - - - - - - - - | |
| E. | Additional shares received (for explanation see "Remarks") - - - - - | | | |
| F | Present dividend: Number of shares of stock - - - - - - - - - - - - - | | | |
| | Cash adjustment received - - - - - - - - - - - - - | - - - - - | - - - - - - - - | |
| G. | Book-value of stock and cash adjustment on date of declaration of stock dividend (giving effect to stock dividend): | | | |
| | Total of cash adjustment held in principal - - - - - - - - - - - - | - - - - - | - - - - - - - - | |
| | Total number of shares now held and book values - - - - - - - - - | | $ | $ |
| | Total present book value - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - | | | $ |

***Number of Shares To Be Distributed***

1. If total present book value (G) is *LESS* than total original book value (C), treat the present stock dividend as principal. (If such is the case, "Principal" is written in margin)____________________

2. If total present book value (G) is *GREATER* than total original book value (C), divide the amount of excess (          ) by present book value per share (          ) which gives a resultant of__________ shares.

   a. If the resultant (          ) is a *larger* number of shares than the present dividend (          ), distribute the entire present dividend, or____________________

   b. If the resultant (          ) is a *smaller* number of shares than the present dividend (          ), distribute the resultant, or____________________

Remarks: ________________________________________

________________________________________________________

________________________________________________________

Prepared by____________________ Approved____________________ Date____________________

---

*The above form is used by the Trust Department of the Irving Trust Company, which is trustee for many trusts, both large and small, in determining the apportionment of stock dividends between principal and income.*

(d) Rights received and cash received therefrom are credits to principal.

(e) If a partnership agreement specifies that earnings after the death of a partner for a limited period of time belong to the decedent's estate, such earnings are usually corpus.

(f) Profits or losses on the sale of the estate assets should be credited to or charged against principal, not income.

Commissions are payable to executors or administrators for receiving and paying principal with the exception that no commissions are allowable on payments of specific legacies. One-half of commissions are payable on receipts and one-half on payments. For estates of $100,000 or over, full commissions are allowed to three executors or if there are more than three executors three commissions must be apportioned among them; for estates under $100,000 (gross estate) only one commission is allowable to be apportioned among all executors.

The arithmetical correctness of commissions as well as the amounts on which they are computed should be verified in detail. The rates of commission in New York are:

| *Not Exceeding* | *Per Cent.* |
|---|---|
| $2,000 | 5 |
| 20,000 | 2½ |
| 28,000 | 1½ |
| all over $50,000 | 2 |

A quick calculation of the amount of commission payable on an estate in excess of $50,000 can be made as follows:

| | | |
|---|---|---|
| *Estate of $100,000:* | | |
| 2 pct. of $100,000 | | $2,000 |
| Add | | 20 |
| Total | | $2,020 |
| *Proof:* | | |
| Not exceeding | $ 2,000—5 pct. | $ 100 |
| Not exceeding | 20,000—2½ pct. | 500 |
| Not exceeding | 28,000—1½ pct. | 420 |
| All over | 50,000—2 pct. | 1,000 |
| | $100,000 | $2,020 |

An illustration of an account of proceedings affecting the receipt and payment of principal (as well as income) is submitted in Exhibit D appended hereto. It is customary when rendering an account of proceedings for the executor to show distribution of securities at the market value as of the date of the distribution. The difference between the values at which the executor acquired the securities and the market value thereof as of the date of distribution is shown on the schedule of distribution under an appropriate caption such as "Increase (or decrease) in market value of securities distributed."

### *Income*

All income during the period of administration should be verified in detail. Some of the more important items to be verified and the procedure for doing so, follow:

1. Ascertain from Moody's or Poor's Manual, Standard Statistics or other published sources the rates of dividends paid by the issuing companies on shares owned by the estate. Multiply the number of shares owned at each dividend date by the rates shown by published documents. If shares of close corporations are owned by the estate, the dividends paid by such corporations should be verified by correspondence.

2. Compute the interest received on bonds, bonds and mortgages, etc., by multiplying the principal by the rate in the instrument having in mind the date of the decedent's death and the interest due date. As explained under the remarks on verification of principal, interest accrued to date of death is part of the principal or corpus of the estate. Investigate any overdue interest.

3. Interest on savings banks should

merit special attention. If the savings bank pays interest from the date of deposit to the date of withdrawal any interest accrued to the date of decedent's death is generally treated as corpus of the estate, and any interest payable thereafter, as income. If, however, the savings bank pays interest only on so-called dividend dates say, four times a year, the interest which has accrued from the last dividend date to the date of the decedent's death is usually considered as income, not corpus.

4. Examine all leases where there is a possibility of property being rented and verify that all rents have been received in accordance therewith.

5. Verify all payments of $20.00 or over by inspection of vouchers on file, correspondence and the like. Special consideration should be given to the possibility of arrears in real estate taxes.

6. Commissions are payable to the executor or administrator for receiving and paying out income at the same rates as specified under the principal section of the paper. In addition, if rents are collected, a commission of 5 pct. is allowed thereon. For the purpose of computing commissions, principal and income are combined as an amount.

It is not the intention to include within the scope of this paper a treatise on either income or inheritance taxes, since that branch of fiduciary work is a specialization in itself. There is submitted below, however, a summary of the tax returns to be filed by the executor or administrator in the State of New York:

*To the Federal Government:*
*Income Tax Returns*

(a) From the first of the year to the date of the decedent's death. This is the usual individual return form filed on behalf of the decedent. The amount of the tax is a charge against the corpus of the estate.

(b) From the date of the decedent's death to the end of the year. This return is filed by the fiduciary and is either the individual return form or fiduciary information form depending on whether or not the income received during administration was distributed or held by fiduciary. The amount of the tax is a charge against the income of the estate, with the exception of the amount of the tax on the profit on sale of securities, which is a charge against corpus.

(c) From the first of the new year to the date of the discharge of the executor or administrator (assuming that the fiduciary is discharged during the year). This return is filed by the fiduciary and is either the individual return form or fiduciary information form depending on whether or not the income received during administration was distributed or held by fiduciary. The amount of the tax payable is a charge against the income of the estate, with the exception of the amount of the tax on the profit on sale of securities, which is a charge against corpus.

*Inheritance Tax Returns*

(d) Preliminary notice (Form 704) to be filed by executor or administrator within two months of the date of appointment. This form calls for the approximate values of the gross estate. No tax is payable based upon the information submitted. The government requires the filing of this form if at the date of the decedent's death the gross estate equaled or exceeded $100,000.

(e) Return for Federal Estate Tax (Form 706) being an itemized inventory by schedule of the gross estate of the decedent with legal deductions. The return is due within one year from the date of death. The amount of the tax is a charge against the corpus of the estate.

*To New York State:*
*Income Tax Returns*

(f) Income tax returns—same number and for the same periods as federal income tax returns.

*Inheritance Tax Returns*

(g) Preliminary return (Form TT141) to be filed by the executor or administrator

within 60 days from the appointment of the appraiser. This form calls for certain information relative to the securities, bank accounts, etc., for all estates, irrespective of the amount of the gross estate.

(h) Complete return (Form TT143) somewhat similar to the information called for by the Federal Estate Tax. This form is to be filed with the Transfer Tax Appraiser of the county in which the proceeding takes place within eighteen months of the decedent's death.

In connection with the audit or examination of an executor's or administrator's accounts, the auditor should satisfy himself that there are no arrears in taxes and that the executor or administrator has filed the necessary forms with both the federal government and New York State, thus avoiding the imposition of penalties.

### Audit of Trustee's Accounts

Many of the points of procedure outlined under the audit of executor's and administrator's accounts apply with equal force to the audit of trustee's accounts. The function of a trustee, however, is somewhat different from that of an executor. The trustee is usually designated by will or other instrument to act for a stipulated period of time; to invest and reinvest the funds of the trust and to generally manage the property thereof. The executor is primarily a liquidator.

Trusts are generally divided into:

Testamentary

Voluntary

Testamentary trusts are trusts created by will. Voluntary trusts are those made by an individual while living, for the benefit of other individuals or of institutions or for himself. Substituted trusteeships are those arising out of the removal or resignation of the original trustee of either testamentary or voluntary trusts.

*Principal*

With respect to the verification of assets of a trust, the same procedure should be followed as was mentioned under (1) and (2) of the audit of executor's and administrator's accounts.

In the paragraphs which follow, an outline is given for the examination of testamentary trusts. This outline applies solely to trustee's accounts and not to those of executors or administrators.

1. Call for certified copy of executor's accounting wherein distribution was made to trustee and copy of court decree discharging the executor.
2. Obtain certified copy of court decree appointing trustee.
3. Ascertain if will stipulates that investments of trustee are to be confined to so-called legal investments (such as first mortgages on real estate, government, state or city bonds, etc.) or if trustee has discretionary powers in investing the estate's funds.
4. Trace assets scheduled in executor's accounting showing distribution to trustee to books of account of trustee, and verify that the values entered therein are those shown in the executor's account and the decree directing distribution. (Usually market values at the date of receipt by the trustee.)
5. Prepare from books of account a work sheet similar to that shown in Exhibit C attached hereto. (Headings would be changed from executor to trustee.) Follow the same procedure as outlined under (10) and (11) of the audit of executor's or administrator's accounts.
6. Inspect brokers' or bank statements and other documents to substantiate the purchase and sale of securi-

ties, real estate or other assets. Where exchanges have been made of stocks or bonds as originally taken over by the trustee or of subsequent purchases by him, consult Poor's or Moody's Manual or similar publications for the purpose of verifying whether the securities received are in accordance with exchange agreements, etc.

7. Review securities for the purpose of ascertaining if they are of character permitted by the will of the testator.

8. Premiums on bonds purchased by the trustee unless otherwise specified by the will, should be amortized out of interest from the date of *purchase* to the maturity of the bond.

Premiums on bonds acquired from executors do not have to be amortized. Discount on bonds inures to the benefit of principal. The records should be reviewed for the purpose of ascertaining if income has been charged and principal credited with amortization on bonds purchased.

In connection with the liabilities of trustees the ordinary items for which he may be surcharged are as follows:

(a) For spending excessive amounts in trying to collect claims which are considered bad.

(b) Where bank fails in case bank account is in individual name without any indication of fiduciary capacity.

(c) For failure to invest funds within a reasonable time.

(d) Where funds are used for business purposes of his own he may be required to pay over profit therefrom to estate.

(e) If there are losses from speculation he must make good amount of such losses.

Commissions are payable to a trustee for receiving and paying out principal and income at the same rates mentioned under audit of executor's and administrator's accounts.

*Income*

Sometimes a will stipulates that during the minority of a child, the excess of income over the upkeep for the child shall be reinvested by the trustee. In cases of this kind, securities representing the investment of unexpended income should be segregated from the principal of the trust and independently verified.

The division of a stock or extraordinary dividend between life beneficiary and remainderman may occur frequently in trusts. In this connection mention was made under the audit of executor's and administrator's accounts of the application of the Osborne rule.

With respect to the verification of income and expenses of a trust the audit thereof is generally along the same lines as discussed in the audit of executor's and administrator's accounts.

Special attention should be directed to the verification of commissions payable for receiving and paying out income. While the rates are the same as mentioned heretofore, there are several features encountered in the verification of commissions on income which are not met with in the verification of principal. Three examples follow:

(a) Accrued interest on bonds at the date of purchase should be deducted from income before computing the commission on income.

(b) The proportion of premiums on bonds applicable to the period should be deducted from income before computing the commission thereon.

(c) Statutory commissions are allowable on income yearly if an account is rendered to the beneficiary. If commissions are not taken yearly the trustee is entitled to commissions on the entire income accounted for as one sum and not to "annual rents" for computation. Care should be exercised to see that the trustee is paid only the commission accrued to the date of the accounting.

## Technical Terms Used

ACCOUNT OF PROCEEDINGS—An accounting to the courts by an executor, administrator, guardian or other trustee in his fiduciary capacity.

ADMINISTRATOR—One appointed by the Court to take charge of the settlement of the estate of an intestate decedent; or of the estate of a person who has left a will, but whose executor for any reason fails to act (such an administrator is called administrator with the will annexed or Adm. *Cum Testamento Annexo.*)

CAUSA MORTIS—In view of death; a gift made by one in view of death, and revocable before death at any time.

CESTUI QUE TRUST—A beneficiary. One who has the profit, benefit or advantage arising from a trust.

CODICIL—An addition or supplement to a will.

COLLATERAL RELATIVES—Those descended from a common ancestor, but not from one another, such as a brother or sister (not a child).

CORPUS—The capital of an estate as distinguished from the income.

CUM TESTAMENTO ANNEXO—With the will annexed.

DEBTS:—

Sperate debts meaning those expected to be collected.

Desperate debts meaning those which are considered hopeless.

DEVISE—To give real property by will.

EXECUTOR—One appointed by a testator in his will, to take charge of the settlement of his estate at the testator's death.

FIDUCIARY—One who holds property in trust for another.

LEGACY—A gift of personal property by will. Legacies are generally divided into:

General legacies or those payable out of the general assets of the estate.

Specific legacies or gifts by will that specify a particular thing.

Demonstrative legacies or those to be paid out of a particular amount of money or quantity of other property that is pointed out.

LETTERS OF ADMINISTRATION—An order of the Court appointing one entitled to share in the estate (where the decedent has left no will) to administer the affairs of the estate.

LETTERS TESTAMENTARY—An order of the Court appointing the executor named in the will or if not named in the will one entitled to share in the estate to administer the affairs of the estate.

LIFE TENANT—One who has the right to hold lands during his lifetime, or during the lifetime of another.

LINEAL DESCENDENTS—In a direct line from a common ancestor; a son, daughter, or grandchild of the deceased.

PER CAPITA—A division of property to individuals share and share alike.

PER STIRPES—A division of property by families; for example, if an estate were willed to A and B or their descendants, in equal shares *per stirpes,* and B died before the testator, A would receive one-half of the estate and the children of B as a group the other half (B's portion if B had survived).

*Exhibit A*

## Excerpts from a Will Having Varied Features

DATE OF DEATH

CLAUSES:

(a) To Dorothy Jones, wife, use during her life of house, 41 Main Street, Freeport, L. I., and of garage in said city.

(b) To Dorothy Jones, wife, all linen, bric-a-brac, works of art, household goods and furniture, china, plate, silverware, books, pictures and motor cars.

(c) To Dorothy Jones, wife, during her life, to extent of $3,000 quarterly, of income from such sum between $200,000 and $300,000 as in the opinion of trustees will be amply sufficient to produce annual income of $12,000.

To lineal descendants, equally per stirpes, use of remainder of income from above trust.

(d) To Henry Jones, Jr., son, parcel of land on which summer home at Mystic, Connecticut, all buildings, contents thereof and appurtenances thereto, and all land owned by testator in said town.

(e) To Henry Jones, Jr., son, all jewelry, wearing apparel, personal ornaments and effects.

(f) To Alice Jones and Dorothy Jones, daughters, bequests of $25,000 each.

(g) To Yale University $5,000 for general purposes.

(h) To Henry Jones, Jr., Alice Jones and Dorothy Jones, children, use of income from remainder until forty years of age; then one-half of principal of his or her share and use during life of income from other half, principal to be paid over as directed by will of each child or to child's heirs-at-law.

(i) No amortization of bond premiums to be charged against life tenants.

(j) Executors and trustees have power to continue any existing investment although of character not now permitted by law to trustees. May invest in real estate anywhere in the United States or in bonds of any state or government, or in bonds, notes or other papers secured by real estate mortgages anywhere in the United States or Canada in good credit and standing without written consent of beneficiaries.

(k) No security required from any executor or trustee in any jurisdiction.

### *Exhibit B*

## Excerpt from Osborne Rule

*(209 N. Y. 450)*

The principle underlying this rule is that the corpus of a trust fund must be maintained intact as it existed at the date of the establishment of the trust.

"The intrinsic value of the trust investment is to be ascertained by dividing the capital and the surplus of the corporation existing at the time of the creation of the trust by the number of shares of the corporation then outstanding, which gives the value of each share, and that amount must be multiplied by the number of shares held in trust. The value of the investment represented by the original shares after the dividend has been made is ascertained by exactly the same method. The difference between the two shows the impairment of the corpus of the trust. If the dividend is of money the amount of that difference is to be retained by the trustee as capital, and the remainder paid to the life beneficiary. If the dividend is in stock the amount of impairment in money must be divided by the intrinsic value of a share of the new stock, and the quotient gives the number of shares to be retained to make the impairment good—the remaining shares going to the life beneficiary."

### *Example*

A trust is created as of December 31, 1923, the income from which is to be paid to a life beneficiary and the principal to a remainderman. The principal of the trust was invested in 1,000 shares of X Corporation common stock.

On June 15, 1925, the trust received a 40 pct. stock dividend which was declared June 1, 1925. The application of the Osborne rule is shown below:

| | *Book Values* *Dec. 31, 1923* | *June 1, 1925* |
|---|---|---|
| Common stock | $ 508,302,500 | $ 711,623,500 |
| Surplus | 553,502,399 | 363,044,914 |
| Totals | $1,061,804,899 | $1,074,668,414 |
| Number of shares of stock outstanding | 5,083,025 | 7,116,235 |
| Book value per share | $208.892 | $151.016 |

### *Determination of Impairment of Corpus of Trust:*

| | |
|---|---|
| Book value of 1,000 shares December 31, 1923 (1,000 x $208.892) | $208,892 |
| Book value of 1,000 shares June 1, 1925, date stock dividend was declared (1,000 x $151.016) | 151,016 |
| Impairment of corpus | $ 57,876 |

Apportionment of stock dividend of 400 shares:

| | | |
|---|---|---|
| Impairment of corpus ($57,876) divided by book value of stock after stock dividend has been paid (151.016) gives number of shares applicable to corpus (Remainderman) | 383.244 | shares |
| Balance to income (life tenant) | 16.756 | Do |
| Total | 400 | Do |

## Exhibit C

| Name of Securities | Inventory: Par Value or Number of Shares | Inventory: Appraised Value (Date) | Date of Acquisition | Subsequently Acquired: Par Value or Number of Shares | Subsequently Acquired: Cost or Exchange Value |
|---|---|---|---|---|---|

| Subsequently Disposed of: Date of Sale | Subsequently Disposed of: Par Value or Number of Shares | Subsequently Disposed of: Amount Received | Gain or Loss on Realization: Gain | Gain or Loss on Realization: Loss | In Hands of Executors (Date): Par Value or Number or Shares | In Hands of Executors (Date): Appraised Value or Cost | Income Received: 193 | Income Received: 193 | Income Received: 193 | Income Received: 193 |
|---|---|---|---|---|---|---|---|---|---|---|

Note: *The above are headings for seventeen different columns to be spread over the top of columnar working paper.*

## Exhibit D

### Estate of John Jones

SUMMARY

As to Principal:

The Executor charges himself as follows, to wit:

| | | |
|---|---|---|
| With amount of inventory of Principal as contained in the inventory on the date of death, August 31, 1929, as shown in Schedule A | $462,900.00 | |
| With amount of assets discovered subsequent to date of death, August 31, 1929, as shown in Schedule B | 45.00 | |
| With amount of increase in the assets of the Estate through sales, as shown in Schedule C | 1,500.00 | |
| With amount of increase in the market value of securities remaining in the hands of the Executor, as shown in Schedule D | 5,137.50 | $469,582.50 |

He credits himself as follows, to wit:

| | | |
|---|---|---|
| With amount of decrease in the assets of the Estate through sales, as shown in Schedule E | 2,000.00 | |
| With amount paid for funeral and necessary expenses in the administration of the Estate, as shown in Schedule F | 30,599.00 | |
| With amount paid in liquidation of the debts of the decedent, as shown in Schedule G | 1,750.00 | |
| With amount paid or delivered to Legatees and Beneficiaries of the Estate, as shown in Schedule H | 12,000.00 | 46,349.00 |

Leaving a balance of Principal remaining in the hands of the Executor at February 10, 1930, as shown in Schedule D, consisting of:

| | | |
|---|---|---|
| Investments and other assets | 379,000.00 | |
| Cash in bank | 44,233.50 | $423,233.50 |

SUMMARY—*Continued*

| | | |
|---|---|---|
| As to Income: | | |
| The Executor charges himself as follows, to wit: | | |
| With amount of dividends and interest received by him, as shown in Schedule I | | $5,850.00 |
| He credits himself as follows, to wit: | | |
| With amount paid for necessary expenses in the administration of the estate, chargeable to income, as shown in Schedule J | $ 127.00 | |
| With amount paid to the beneficiary, as shown in Schedule K | 2,000.00 | |
| Total credited, as aforesaid | | 2,127.00 |
| Leaving a balance of income remaining in the hands of the Executor at February 10, 1930, consisting of cash | | $3,723.00 |
| A total balance of Principal and Income, to be distributed to the persons entitled thereto, subject to the commissions of the Executor and the expenses of this accounting, of | | $426,956.50 |

## Schedule A

### INVENTORY OF ALL ASSETS AS AT THE DATE OF DEATH, AUGUST 31, 1929

Recapitulation

| | |
|---|---|
| Bonds and accrued interest, as annexed | $176,000 |
| Stocks and dividends, declared prior to date of death, as annexed | 269,900 |
| Sundry assets, including cash, as annexed | 17,000 |
| | $462,900 |

NOTE: *Each schedule is to be signed at its foot by the executor.*

*Schedule A—Continued*

| *Par Value* | *Bonds and Accrued Interest* | *Unit Prices* | *Market Value Aug. 31, 1929 Date of Decedent's Death* | |
|---|---|---|---|---|
| $50,000 | American Smelting & Refining Co. 5 pct., due April 1, 1947. Interest April and October 1. | 100⅛ | $50,062.50 | |
| | Accrued interest from April 1, 1929, to August 31, 1929 | | 1,041.67 | $ 51,104.17 |
| 50,000 | American Continental Corp. 5 pct. due April 1, 1943. Interest April and October | 80½ | 40,250.00 | |
| | Accrued interest from April 1, 1929, to August 31, 1929 | | 1,041.67 | 41,291.67 |
| 50,000 | Government of the Argentine Nation external 6 pct., due June 1, 1959. Interest June and December | 99⅝ | 49,812.50 | |
| | Accrued interest from June 1, 1929, to August 31, 1929 | | 750.00 | 50,562.50 |
| 25,000 | Chesapeake & Ohio Railway 4½ pct., due March 1, 1992. Interest March and September | 94¼ | 23,562.50 | |
| | Accrued interest from March 1, 1929, to August 31, 1929 | | 562.50 | 24,125.00 |
| 10,000 | Chicago, Milwaukee, St. Paul & Pacific 5 pct due February 1, 1975. Interest February and August 1 | 88¾ | 8,875.00 | |
| | Accrued interest from August 1, 1929, to August 31, 1929 | | 41.66 | 8,916.66 |
| | Total bonds | | | $176,000.00 |

*Schedule A—Continued*

| *No. of Shares* | *Stocks and Dividend Declared Prior to Date of Death* | *Unit Prices* | | *Market Value Aug. 31, 1929 Date of Decedent's Death* |
|---|---|---|---|---|
| 500 | Atchison, Topeka & Santa Fe Railway Co. preferred | 102 | | $ 51,000.00 |
| 400 | Southern Pacific Co. | 152 | $60,800.00 | |
| | Dividend | | 600.00 | 61,400.00 |
| 200 | Union Pacific Railroad Co. common | 295 | | 59,000.00 |
| 400 | Union Pacific Railroad Co. preferred | 85 | | 34,000.00 |
| 500 | Wabash Railway Co. preferred | 95 | | 47,500.00 |
| 1,000 | Tobacco Products Co. A | 17 | | 17,000.00 |
| | | | | $269,900.00 |

*Other Property*

| | |
|---|---|
| Jewelry, silverware, linens, etc. | $ 5,000.00 |
| Household and personal effects | 2,000.00 |
| Cash | 10,000.00 |
| | $17,000.00 |

## Schedule B

A STATEMENT OF ALL ASSETS OF THE DECEDENT DISCOVERED SUBSEQUENT TO AUGUST 31, 1929.

| *1929* | | |
|---|---|---|
| Oct. 7 | Refund of insurance premium | $45 |

## Schedule C

A STATEMENT SHOWING THE INCREASE IN THE ASSETS OF THE ESTATE, FOR THE PERIOD FROM AUGUST 31, 1929 TO AND INCLUDING FEBRUARY 10, 1930.

| *1930* | | *Amount Received* | *Value Per Inventory Aug. 31, 1929* | *Increase* |
|---|---|---|---|---|
| Feb. 10 | Sold 500 shares Atchison, Topeka & Santa Fe Railway Co., pfd. | $52,500 | $51,000 | $1,500 |

## Schedule D

A STATEMENT SHOWING ALL BONDS, SHARES OF STOCK, OTHER ASSETS AND CASH MENTIONED IN SCHEDULE A, REMAINING IN THE HANDS OF THE EXECUTOR AND ALL ASSETS SUBSEQUENTLY ACQUIRED BY HIM, REMAINING IN HIS HANDS, BEING ALL OF THE PRINCIPAL OF THE ESTATE, NOW IN THE HANDS OF THE EXECUTOR FEBRUARY 10, 1930.

| *Par Value* | | *Inventory Value Aug. 31, 1929 or Subsequent Cost* | *Market Value Feb. 10, 1930* |
|---|---|---|---|
| $50,000 | American Smelting & Refining Co., 5 pct. due April 1, 1947. Interest April and October | $50,062.50 | $51,500.00 |
| 50,000 | American Continental Corp., 5 pct. due April 1, 1943. Interest April and October | 40,250.00 | 40,500.00 |
| 50,000 | Government of the Argentine Nation external 6 pct. due June 1, 1959. Interest June and December | 49,812.50 | 49,800.00 |
| 25,000 | Chesapeake & Ohio Railway 4½ pct. due March 1, 1992. Interest March and September | 23,562.50 | 23,650.00 |
| 10,000 | Chicago, Milwaukee, St. Paul & Pacific, 5 pct. due February 1, 1975. Interest Feb. and Aug. | 8,875.00 | 8,600.00 |
| *Shares* | | | |
| 400 | Southern Pacific Co. | 60,800.00 | 62,825.00 |
| 200 | Union Pacific Railroad Co., common | 59,000.00 | 59,125.00 |
| 400 | Union Pacific Railroad Co., preferred | 34,000.00 | 35,000.00 |
| 500 | Wabash Railway Co., preferred | 47,500.00 | 48,000.00 |
| | Cash in bank | 44,233.50 | 44,233.50 |
| | | 418,096.00 | 423,233.50 |
| | Increment in market value of securities | 5,137.50 | |
| | | $423,233.50 | $423,233.50 |

## Schedule E

A STATEMENT SHOWING THE DECREASE IN THE ASSETS OF THE ESTATE, FOR THE PERIOD FROM AUGUST 31, 1929, TO AND INCLUDING FEBRUARY 10, 1930.

| *1929* | | *Amount Received* | *Value Per Inventory Aug. 31, 1929* | *Decrease* |
|---|---|---|---|---|
| Nov. 20. | Sold 1,000 shares Tobacco Products "A" | $15,000 | $17,000 | $2,000 |

## Schedule F

A STATEMENT OF ALL MONIES PAID BY THE EXECUTOR FOR FUNERAL EXPENSES, AND NECESSARY EXPENSES IN THE ADMINISTRATION OF THE ESTATE, CHARGEABLE AGAINST PRINCIPAL, FOR THE PERIOD FROM AUGUST 31, 1929 TO FEBRUARY 10, 1930.

| *1929* | *Funeral Expenses* | *Amounts* |
|---|---|---|
| Sept. 18 | Campbell Company, funeral expense of undertaker | $ 800 |
| 19 | William Kather, flowers for funeral | 50 |
| 21 | Leo Schultz, musicians' services at funeral | 75 |
| 23 | A. Frank & Co., death notices and stamps | 15 |
| | | $ 940 |
| | *Administration Expenses* | |
| Nov. 5 | Samuel Marx, appraisal of property | $ 150 |
| Dec. 20 | New York state, estate tax | 7,000 |
| 20 | United States Government, estate tax | 22,500 |
| 24 | Goldsmith Co., stationery | 9 |
| | | $29,659 |
| | Total funeral and administrative expenses | $30,599 |

## Schedule G

A STATEMENT OF ALL MONIES PAID BY THE EXECUTOR IN LIQUIDATION OF ALL DEBTS OF THE DECEDENT.

| *1929* | | *Amounts* |
|---|---|---|
| Dec. 15 | New York State, personal income tax (period prior to death) | $ 200 |
| Do | U. S. Government, personal income tax (period prior to death) | 300 |
| Dec. 18 | Stock broker, margin account | 1,200 |
| Dec. 29 | John Wanamaker, personal wearing apparel | 50 |
| | | $1,750 |

## Schedule H

A STATEMENT OF ALL MONIES AND PROPERTY PAID OR DELIVERED TO LEGATEES AND BENEFICIARIES AS NAMED IN THE WILL OF THE DECEDENT, FOR THE PERIOD FROM AUGUST 31, 1929 TO AND INCLUDING FEBRUARY 10, 1930.

| | | |
|---|---|---|
| *1929* | | |
| Sept. 25 | Distribution to Mrs. John Jones of the following: | |
| | Jewelry, silverware, linens, etc. | $ 5,000.00 |
| | Household and personal effects | 2,000.00 |
| *1930* | | |
| Jan. 1 | Legacy paid in accordance with Will: | |
| | William Smith | 5,000.00 |
| | | $12,000.00 |

## Schedule I

A STATEMENT OF ALL INTEREST ON BONDS, DIVIDENDS ON STOCKS COLLECTED BY THE EXECUTOR FOR THE PERIOD FROM AUGUST 31, 1929 TO AND INCLUDING FEBRUARY 10, 1930.

| | | | |
|---|---|---|---|
| *1929* | *Interest:* | | |
| Sept. 1 | Chesapeake & Ohio Railway 4½ pct. due 1992. Interest on $25,000 for 6 months | $ 562.50 | |
| | Less, Interest accrued to date of death | 562.50 | |
| Oct. 1 | American Smelting & Refining Co. 5 pct. due 1947. Interest on $50,000 for 6 months | 1,250.00 | |
| | Less, Interest accrued to date of death | 1,041.67 | $ 208.33 |
| Oct. 1 | American Continental Corp. 5 pct. due 1943. Interest on $50,000 for 6 months | 1,250.00 | |
| | Less, Interest accrued to date of death | 1,041.67 | 208.33 |
| Dec. 2 | Argentine Government 6 pct. due 1959. Interest on $50,000 for 6 months | 1,500.00 | |
| | Less, Interest accrued to date of death | 750.00 | 750.00 |
| *1930* | | | |
| Feb. 1 | Chicago, Milwaukee, St. Paul & Pacific 5 pct. Interest on $10,000 for 6 months | 250.00 | |
| | Less, Interest accrued to date of death | 41.66 | 208.34 |
| | Forward | | $1,375.00 |

*Schedule I—Continued*

| | | | |
|---|---|---|---|
| | Brought forward | | $1,375.00 |
| | *Dividends:* | | |
| *1929* | | | |
| Oct. 1 | Southern Pacific Co.: | | |
| | Dividend on 400 shares at $1.50 per share | 600.00 | |
| | Less, Dividend declared prior to date of death | 600.00 | ........ |
| Oct. 1 | Union Pacific R. R. Co. preferred: | | |
| | Dividend on 400 shares at $2.00 per share | | 800.00 |
| Oct. 1 | Union Pacific R. R. Co. common | | |
| | Dividend on 200 shares at $2.50 per share | | 500.00 |
| Nov. 15 | Tobacco Products Corp. A | | |
| | Dividend on 1,000 shares at $.20 per share | | 200.00 |
| Nov. 25 | Wabash Railway Co. preferred A | | |
| | Dividend on 500 shares at $1.25 per share | | 625.00 |
| *1930* | | | |
| Jan. 2 | Union Pacific R. R. Co. common | | |
| | Dividend on 200 shares at $2.50 per share | | 500.00 |
| Jan. 2 | Southern Pacific Co. | | |
| | Dividend on 400 shares at $1.50 per share | | 600.00 |
| Feb. 1 | Atchison, Topeka & Santa Fe Ry. Co. preferred | | |
| | Dividend on 500 shares at $2.50 per share | | 1,250.00 |
| | Total interest and dividends | | $5,850.00 |

## Schedule J

A STATEMENT OF ALL MONIES PAID BY THE EXECUTOR FOR NECESSARY EXPENSES CHARGEABLE AGAINST INCOME FOR THE PERIOD FROM AUGUST 31, 1929 TO AND INCLUDING FEBRUARY 10, 1930.

| | | |
|---|---|---|
| *1930* | | |
| Jan. 15 | A. B. Charles, bookkeeping services | $125 |
| Jan. 20 | W. W. Richards, notarial fees | 2 |
| | | $127 |

## Schedule K

A STATEMENT OF ALL MONEY PAID TO BENEFICIARY AS NAMED IN THE WILL, BEING DISTRIBUTION OF INCOME, FOR THE PERIOD FROM AUGUST 31, 1929, TO AND INCLUDING FEBRUARY 10, 1930.

| | | |
|---|---|---|
| *1929* | | |
| Dec. 24 | Mrs. John Jones | $2,000 |

## Schedule L

A STATEMENT OF ALL MONIES RECEIVED BY THE EXECUTOR FOR ACCOUNT OF SECURITIES AND OTHER OBLIGATIONS MENTIONED IN SCHEDULE A, WHICH HAVE BEEN SOLD BY HIM AT PUBLIC OR PRIVATE SALE, AND ALL INTEREST OR DIVIDENDS ACCRUED OR DECLARED PRIOR TO DATE OF DEATH, COLLECTED BY HIM FOR THE PERIOD FROM AUGUST 31, 1929, TO AND INCLUDING FEBRUARY 10, 1930.

| | | |
|---|---|---|
| *1929* | | |
| | Collection of interest accrued to date of death, as follows: | |
| Sept. 1 | Chesapeake & Ohio Railway, 4½ pct. due 1992 | $ 562.50 |
| Oct. 1 | American Smelting & Refining Co., 5 pct. due 1947 | 1,041.67 |
| Oct. 1 | American Continental Corp., 5 pct. due 1943 | 1,041.67 |
| Dec. 2 | Argentine Government, 6 pct. due 1959 | 750.00 |
| *1930* | | |
| Feb. 1 | Chicago, Milwaukee, St. Paul & Pacific, 5 pct. due 1975 | 41.66 |
| | Collection of dividend declared prior to date of death, as follows: | |
| *1929* | | |
| Oct. 1 | Southern Pacific Co., common dividend on 400 shares at $1.50 per share | 600.00 |
| Oct. 7 | Collection of refund of insurance premium | 45.00 |
| | Collections on sales of securities, as follows: | |
| Nov. 20 | Tobacco Products A 1,000 shares | 15,000.00 |
| *1930* | | |
| Feb. 10 | Atchison, Topeka & Santa Fe Railway Co., pfd | 52,500.00 |
| | | $71,582.50 |

# Massachusetts Annual Report of Condition

For many years Massachusetts has required that corporations, whether organized under its laws or registered to do business in that state, shall file annually a "report of condition", also termed a "certificate of condition". This report is required to be made by the officers and a majority of the directors and, if the issued capital is not less than $100,000 par value or 1,000 shares of no par value, must be certified by an auditor. The auditor of a foreign corporation must be chosen by the board of directors; in the case of a domestic corporation "by a committee of three stockholders who are not directors which shall be selected at each annual meeting of the stockholders, or, if there are not three stockholders other than directors able and willing to serve on such committee, he shall be employed by the directors".

In the case of *United Oil Company v. Eager Transportation Company, et al.,* decided on November 29, 1930, the Supreme Court of Massachusetts held the directors and officers of the latter company (a Massachusetts corporation) responsible for the debt owed the plaintiff on the ground that its reports of condition filed in 1927, 1928 and 1929 were false in a material representation and that the defendants knew or ought to have known them to be false. The report of condition of Eager Transportation Company filed in 1927 contained this statement of assets and liabilities:

| | |
|---|---|
| ASSETS | |
| Autos, trucks and teams | $14,735.00 |
| Accounts receivable | 1,990.30 |
| Cash | 24.28 |
| Good will | 16,312.78 |
| Profit and loss | 18,998.14 |
| Total | $52,060.50 |
| LIABILITIES | |
| Capital stock | $25,000.00 |
| Accounts payable | 12,327.33 |
| Notes payable | 900.00 |
| Reserves | 13,833.17 |
| Total | $52,060.50 |

According to the evidence reported, the reserves as carried on the books of the company represented almost wholly depreciation on its autos, trucks and teams. The court said in part, "It is plain, also, that the requirements of the statute are not satisfied by a statement which shows accurately the 'net condition of the company, as represented in the amount of profit and loss', but is false in material details. The representations of the value of 'autos, trucks and teams' in the statements of assets and liabilities here in question were 'material' and, standing alone, 'false'. The question is whether they were made true by any other items in the statements, * * *. A true statement would show, at least, that the liability item was a deduction from assets and identify the asset item from which the deduction was to be made. There was no such showing in these statements".

Many regarded this decision as an

| ASSETS | | | LIABILITIES | | |
|---|---|---|---|---|---|
| Cash | $ | | Accounts payable | $ | |
| Accounts receivable, customers | | | Notes and acceptances payable | | |
| Accounts receivable, others | | | | | |
| Notes receivable, customers | | | | | |
| Notes receivable, others | | | Mortgages [Specify kind of property mortgaged] | | |
| Merchandise | | | | | |
| Supplies | | | Bonds | | |
| | | | Reserves (classify below): NOTE: Reserves for depreciation or reduction of assets, if not deducted from assets, shall be appropriately described to identify the assets to which they apply. | | |
| Securities (except those issued by this corporation) | | | | | |
| Real Estate | | | | | |
| Machinery | | | | | |
| Motor Vehicles | | | | | |
| Equipment and Tools | | | | | |
| Furniture and Fixtures | | | | | |
| | | | | | |
| Prepaid insurance, interest, taxes | | | Capital stock with par value | | |
| Patent rights, trademarks, copyrights | | | Capital stock without par value | | |
| Good Will | | | No. of shares without par value [ ] | | |
| Treasury stock | | | Surplus | | |
| | | | | | |
| | | | | | |
| Profit and loss (deficit) | | | | | |
| TOTAL | $ | | TOTAL | $ | |

a. Indicate on what basis any securities owned are stated above ("cost", "market", etc.)

b. Did the corporation have any contingent liabilities not reported above?

c. What of the above classes of assets, if any, were pledged?

d. Did the corporation have investment in, or indebtedness from or to, any company closely affiliated with it?

Assets and liabilities not covered by the printed items should be reported in the blank spaces above.

unduly harsh one, especially as the statutory form had in it the single word "Reserve" among the liabilities. The decision has led to the following amendment to the statute:

*Section* 36, *Chapter* 156. The president, treasurer and directors of every corporation shall be jointly and severally liable for all the debts and contracts of the corporation contracted or entered into while they are officers thereof if any stock is issued in violation of section fifteen or sixteen, or if any statement or report required by this chapter is made by them which is false in any material representation and which they know to be false; but directors who vote against such issue, and are recorded as so voting, shall not be so liable, and only the officers signing such statement or report shall be so liable; provided, that if a report of condition as a whole states the condition of the corporation with substantial accuracy, in accordance with usual methods of keeping accounts, it shall not be deemed to be false; and provided, also, that the officers or directors signing a false report of condition shall be liable only for debts contracted and contracts entered into before the filing of the next subsequent report of condition, and only to persons who shall have relied upon such false report to their damage. (Note: This section applied only to Massachusetts corporations.)

*Section* 2, *Chap.* 313 *of* 1931. Section forty-seven of said chapter one hundred and fifty-six is hereby amended by striking out the paragraph numbered 6 and the schedule pended thereto and inserting in place thereof the following:—6. A statement of the assets and liabilities of the corporation as of the date of the end of its last fiscal year, to be made in such form as the commissioner shall prescribe. (Note: This section applied to foreign, as well as, Massachusetts corporations.)

The amendment as finally adopted reflected the combined consideration on the subject by business men, lawyers, and a special committee of the Massachusetts Society of Certified Public Accountants, of which Mr. Sweet of our firm was Chairman, in meetings called at the Boston Chamber of Commerce. Mr. Sweet's committee sponsored two changes that were incorporated in the amendment, namely, (a) a provision that no report of condition shall be deemed to be false if in accordance with the usual methods of keeping accounts, and (b) deletion of the statutory form of the statement of assets and liabilities and giving the Commissioner of Corporations and Taxation authority to prescribe the form.

The committee of the Massachusetts Society above referred to has participated in conferences with the Commissioner in regard to the form. The Commissioner has recently released the form of asset and liability statement prescribed by him. A copy of it is reproduced on the preceding page.

It is interesting to note that the words "in my opinion" have been added to the Auditor's certificate as included in the new forms of certificate of condition. The Auditor's certificate as revised now reads:

**AUDITOR'S CERTIFICATE**

....................193

I, ....................................

of.............................. the duly

selected Auditor of......................,

a corporation duly established by law, hereby state under the penalties of perjury that this report, in my opinion, represents the true condition of the affairs of said corporation as disclosed by its books at the time of making such audit. This certificate is made by me in compliance with the provisions of section 49, chapter 156, of the General Laws.

..............................

AUDITOR

# Silver Bay Conference of Smaller Industries

By E. G. Boutelle
*(Boston Office)*

I went to Silver Bay on Lake George, New York, to preside at the budget session of a conference of smaller industries held during the week beginning August 10th. The conference was well attended by representatives of moderate sized concerns, mostly from middle western, middle Atlantic and New England states.

The setting on beautiful Lake George left nothing to be desired, and a touch of novelty was created by holding many of the sessions in the "boat house." But it was evident that the members of the conference were assembled for serious purposes and I have seldom seen more uniform and genuine interest displayed in other gatherings of a like nature. There were many excellent addresses and papers.

A very interesting session was that devoted to personnel relations. All the speakers seemed distinctly liberal in their attitudes towards employees. One speaker described at length the activities of the personnel department of his company which included nearly everything of which I have ever heard and seemed definitely paternalistic in character. The following is a partial list:

Long service bonuses.
Vacations with pay.
Old age pensions.
Life insurance.
Credit unions (loans).
Fitness for job—transfers to other work.
Sick benefits.
Athletic and sports facilities.
A long list of what may be called personal service to employees included making of wills, help in arranging weddings, settling disputes, advice on problems, etc.

Another speaker in the personnel relations session said that he had abolished the recording of tools taken from the crib or tool store. Each man takes what tools he needs and is expected to put them back. He said that this worked out satisfactorily because of the good will of employees for the company. Apparently his shop is operated on the "just one big family idea" and he thinks that this policy pays.

Somewhat startling was a paper in the personnel session entitled "An Experiment in Industrial Democracy," describing a radical idea in business management supported by fourteen years of successful operation in each of which, except one (1921), substantial profits were realized. It appears that in 1917 control of the business was placed in the hands of a committee of ten, three of whom were appointed by the owners and seven elected by the employees. The majority vote controlled and no subject was barred from discussion. As time passed another body composed entirely of workers in the plant was elected to act in an advisory capacity to the older and more authoritative members of the committee. In 1924 these two governing bodies were merged into what is known as the Council. Each employee, no matter what his status, received suf-

frage in that body. He could enter into discussion of and vote upon any measure which came before the Council. He could also suggest any matters he considered important for consideration and decision.

The entire plan and how the Council met and solved the problems of the business were described at length in a pamphlet circulated among the members at the session. It will suffice here to list the principal results claimed to have been accomplished:

Normal working schedule 5 days or 45 hours per week. During the rush season longer hours accepted as a matter of course.
Employees for the most part paid salaries and retained by the year.
Amounts of salaries determined by the Council according to needs of employees, apparently with little regard for ability.
Future unemployment, sickness, accident and old age insurance provided for out of current earnings.
Complete medical, dental and hospital care at expense of the company.
Selling prices considerably lower than those of competitors for products of equal quality.
Profits after providing for dividends and certain reserves go to salaried workers for the purchase of the company's capital stock which is held by three trustees elected by the Council. At June 30, 1930, the employees in this manner had become owners of 51.3% of the total outstanding capital stock.

According to the pamphlet the company has only 170 employees; its outstanding capital stock at June 30, 1929, was $312,900 and at June 30, 1930, $351,800. Profits before taxes and depreciation amounted to $120,900 for the year ended in 1929 and $112,570 for the year ended in 1930. Amounts for taxes and depreciation were not given.

The enterprise is a small one but it has an enviable record of success over the past fourteen years. All of the data and figures are taken from the pamphlet mentioned above and if they accurately represent the facts, the results obtained are astonishing to me.

"The Obligation of Industry to the Unemployed" was the title of an address by Mr. James W. Hook, President of Geometric Tool Company, New Haven, Connecticut, in which there were many definite but untried ideas. The speaker thought that we are headed toward social experiments in employment and that each generation demands more freedom than the preceding one. He said that industry is responsible only to its stable employees and that study of conditions in his own business during the current depression led him to believe that a reserve provided in periods of prosperity, amounting to only ¾ of 1% of the total pay roll, would be ample to pay stable workers 70% to 80% of their regular wages in periods of unemployment; that industry must determine who are its stable workers and provide for them during periods of depression, the alternative being governmental unemployment insurance which, doubtless, would be subject to much abuse. He believes in such a plan for his own business and that it will pay for itself in added morale and efficiency. His ideas, he thought, had been developed out of "enlightened self-interest" and were not altruistic.

Cost accounting was the subject of one of the sessions, the principal speaker being Mr. J. P. Jordan who held forth in his usual interesting manner. Mr. Jordan said, among other things, that combined companies have been unable to realize the savings claimed when mergers were in prospect. He thought that reaction was beginning against large combinations; that the hope of

America was centered in small plants and that the tendency of the larger concerns is to return to the smaller plant methods, in other words, to decentralize the management and related functions. He felt that the idea of cutting prices to fill up shop capacity is wrong and has no good results. His talk, strictly in relation to cost accounting, was directed to the use of standard costs and he believed that the setting of standards should be carried into every activity of a business.

An idea brought out during the cost accounting session was that overabsorption of cost brought about by greater than normal operation during periods of prosperity should be reserved to care for later unabsorbed costs. Generally we are accustomed at the end of a fiscal year to take overabsorbed costs into profits, at least that portion applicable to goods sold, and to write off costs unabsorbed against income of the year.

The principal speaker in the session devoted to sales problems had many ideas which were presented in a manner that held one's attention. He was a member of a professional organization, one of whose activities is sales promotion. He said, in part, that "we have an idiotic situation at present; because we have more meat than we can use, people are starving; because we have a surplus of clothing, people are going unclothed; let us realize that there is a market at our shop doors if we will only go after it; the market is not a slice of territory but a group of people; the market today is flooded with misfit products which may be all right in good times but not all right in bad times; product must be related to market requirements." The speaker touched upon the importance of good looking goods and showed a picture of a heat regulator before and after redesigning by an artist. The company that produced this article got $5.50 more for the redesigned article than for the old and it cost 60c less to produce. He went on, "the opinion of a man about his own product is relatively unimportant, the important thing is the customer's opinion; salesmen should talk with the customer about what the customer wants to know, that is, how do the goods offered fulfill the customer's wants, whims and desires."

Budgeting was the subject of one of the sessions and it was quite evident from the questions and discussions that the idea is firmly rooted and is being developed among these representatives of smaller industries. All appeared to be interested and to appreciate the value of budgetary control without great understanding of its many applications or of methods for its development.

There were a number of other sessions. One speaker said that the present depression is due fundamentally to mismanagement of world finance. Another said that there are still too many business men who think that cost determines selling price; the great problem is how to sell goods at bid price and make a profit. Other speakers thought that the craze for mergers is about over; that government should keep out of business; that the small plant maintains a place for itself because it can give more personal attention to its trade; that no business is too small to require good management.

His excellency, Franklin D. Roosevelt, Governor of New York, addressed the conference. He believed that smaller industries retain a definite place in American business and that reaction seems to be commencing in favor of the smaller organizations.

# A Novel Program at the Annual Meeting of the National Association of Cost Accountants

By William F. Marsh

Each year the program arranged for the convention of the N. A. C. A. has eclipsed those which preceded it. This year such an achievement seemed almost impossible, but what seemed impossible was unquestionably accomplished. The program committee worked out a most unique plan of technical sessions.

The central theme of the program was profit-making management and the technical sessions were utilized to develop profit-making ideas as applied to a company that had at one time made substantial profits but during the past few years had been continually slipping.

The preliminary program sent to all members of the Association contained an invitation to attend a meeting of the Board of Directors of the Naca Manufacturing Company (a mythical concern based, however, on an actual existing company) to be held at the William Penn Hotel in Pittsburgh on June 15th to 18th.

At the opening session about six hundred members and guests sat in on what was probably the largest directors' meeting yet held to hear a complete and practical exposition of profit-making management based upon actual conditions. Each of the "directors" was given the opportunity of hearing the report of the president of the mythical nut and bolt concern, the cost accountant's plan for standard costs, the production manager's explanation of the method of setting standards and in what way savings could be effected, the sales manager's development of sales forecasts, the comptroller's plan of budgetary control, and a summary by the Chairman of the Board of the entire rehabilitation plan. In addition, the plans of these various "executives" were discussed from the standpoint of actual experience by executives of other corporations, all leaders in their respective fields.

The necessary background was given in the opening session by means of a well acted prologue. The time was supposedly six months previous to the directors' meeting—the scene, the office of the president of the Naca Manufacturing Company. In that manner, the disheartened president, Charles C. James, formerly general auditor of the Westinghouse Electric and Manufacturing Company, was introduced and also his "young cost accountant", who pointed out his opinion of some of the causes of the weakened condition of the company and obtained the president's consent to develop a plan embodying standard costs and control methods within the company.

In the technical sessions which followed the "young cost accountant", disclosed as Dr. Charles Reitell, head of the Department of Accounting at the University of Pittsburgh, and now Chairman of the Greater Pennsylvania

Council during a year's leave of absence from the University, presented to the directors a complete plan of reorganization which it was thought would put the Naca Manufacturing Company on a profit-making basis. Dr. Reitell gave a most comprehensive presentation of the advantages which could be accomplished by the installation of standard costs, coupled with budgeted production and sales and control methods. His presentation was followed by one of the most enthusiastic receptions ever accorded a N. A. C. A. convention speaker.

At the Tuesday afternoon session, sponsored by the Cincinnati Chapter, four members of the machine tool industry told of the benefits derived by that industry from a standard cost plan fostered by the National Machine Tool Builders Association.

Wednesday morning the Naca Manufacturing Company's new production manager, in the person of Mr. Irvin Gerofski, of Scovell, Wellington & Company, presented a paper concerning the production problems of the organization. He described the bad state of affairs he had found in the plant and suggested, as the first step, to set up production schedules based on sales forecasts for a period of about six months. He next turned his attention to the development of labor and burden standards. Claiming that it was illogical to assume that past experience provided any measure of the productive capacity of the various machines, he recommended studies of all operations. As far as possible, work, materials, equipment and tools were arranged so as to necessitate a minimum of effort and time to carry out the required manufacturing operations, and as each operating method was established a time study was made and a standard set. He emphasized that time studies without method studies have no real value. Furthermore, from an organization standpoint, each foreman, he said, should be manager of his department so far as all direct costs are concerned. He pointed out what would be necessary, with a minimum expenditure of money, to line up things to a more economical basis and to work out a substantial saving in production methods. For example, he described in detail how he found the tools and dies approximately two and a half times the normal requirements, and he then outlined a control in the tool department which would result in a substantial saving.

Mr. Gerofski was followed by Mr. C. W. Avery, president of the Murray Body Corporation, who presented the results of actual changes in methods which had been made by his company. He illustrated the economies effected in his own plants by control of waste, utilization of waste products, time saving arrangement of machinery, and other changes directed toward reducing loss of time and material. He stressed the importance of two factors in keeping down costs: factory location and layout, and material handling.

At the session Wednesday afternoon Mr. R. H. Dick, president of the Barrington Associates, ably took the part of the sales manager of the Naca Manfacturing Company. Mr. Dick had studied the sales problems of the Naca Company and also of the nut and bolt industry as a whole and presented what he believed was a feasible sales plan for the succeeding two or three years. He maintained that making and following market analyses and sales forecasts which involved the careful survey of the logical sales territory would not only insure sale of the company's product, but its sales at a profit. He was

followed by two sales executives, Mr. R. G. Knowland, vice-president and general manager of the Bigelow-Sanford Carpet Company, and George V. Christy, general sales manager of the Gifford Wood Company of Hudson, N. Y. Each of these gentlemen told how a sales plan similar to that outlined by Mr. Dick had in actual practice in their respective companies yielded the results which Mr. Dick claimed and further strengthened the feeling that the new Naca sales plan was sound. Mr. Knowland particularly stressed the point that accountants are ordinarily diffident to take up sales analysis although their knowledge and training make them ideally fitted for such a job.

The first speaker at Thursday morning's session was Mr. R. E. Warren, manager of our Cleveland office, acting as comptroller of the Naca Company. Unfortunately, on account of the annual business meeting and election which took place the first thing Thursday morning, it was necessary for Mr. Warren to present his remarks in much less time than had been previously allotted. However, he showed the "directors" how the budgeted sales and costs would be tied in with the actual figures on the books of the company and on the periodical statements, and also briefly described the accounting procedure for budgetary control. Referring to the determination of fixed and conrtollable expenses, Mr. Warren said that accountants should cease arguing about details and get down to principles, that the accounting department should be an active force, not passive.

Mr. E. S. LaRose, assistant comptroller of the Bausch & Lomb Optical Company, then described in detail the budget set-up used by his company. He showed how his company's sales were budgeted, classified according to territories, products, salesmen and even type of salesman. He presented charts to prove that since his company has used the plan of budgetary control its sales in the low periods of business cycles have not dropped so low as in previous depression periods. In other words, by means of the budget, they beat the depression periods by means of new products and increasing goals in areas where the potential market was underabsorbed.

The recommendations of the various "executives" were summed up by Mr. C. H. Crocker, comptroller of the Worthington Pump & Machinery Corporation, who urged the adoption of the plan presented and offered a motion expressing confidence in the work of the president and department heads and asking them to go ahead with the suggested reorganization.

Each session included a very interesting discussion period which demonstrated that those in attendance had followed the papers presented with very keen interest and apparently felt that the presentation was such that practical suggestions were derived which could be applied to their own business problems.

Although the major portion of the time had to be devoted to the presentation and discussion of technical subjects, those attending the convention found themselves extensively entertained. Commencing with a golf tournament and plant visitations on Monday and winding up with a banquet, the program of entertainment provided by the Pittsburgh Chapter proved most enjoyable.

# A Review of "Distribution Cost Problems of Manufacturing Confectioners," A Bulletin Issued by U. S. Department of Commerce in May, 1931

By A. S. Harlow
(*Boston Office*)

Distribution cost studies, Bulletin No. 10, contains the results of a study undertaken by the United States Department of Commerce, Bureau of Foreign and Domestic Commerce, at the request of the National Confectioners Association. The expressed purpose of the study was "to show all the factors related to costs of distributing candy, to present the results of an analysis of orders and sales costs in certain factories selected as representatives of the industry, and to devise a cost accounting system which can be utilized advantageously by any manufacturing confectioner in the scientific control of distribution costs."

The bulletin contains a record of distribution costs and problems for seven manufacturing confectioners. The businesses and problems of these companies vary considerably one from another. General line manufacturers and specialty manufacturers are both represented. Some companies produce complete lines of confectionery. Others add to the line of their own make by purchasing candies for resale. Most manufacturing confectioners should find their problems dealt with in this report. Presumably some of them will attempt to improve their businesses by analyzing their performances along the lines followed in this bulletin. Executives in somewhat similar industries may also use some of the ideas advanced by the Department and may base their conclusions upon similar analyses.

The bulletin groups expenses classified as distribution costs according to the purpose (or function) of the expenditure. General and administrative expenses have been classified as distribution expenses and there is nothing to indicate whether any part of the general and administrative expenses has been allocated to manufacturing cost. The Department has arranged these expenses in three groups: executive expense, credit and collection expense, and general office expense. Executive expense includes purchase department salaries and supplies, employees' bonuses, financial salaries and interest payable together with other salaries and expenses of a more general nature. In the bulletin, executive expenses are allocated to territories and to articles sold according to gross sales.

The writer would take some exception to the published classification as stated in the preceding paragraph. According to the functional principle, the expense of the purchasing department applicable to the buying of sugar should, in his opinion, be added to the cost of sugar. The expenses of purchasing candy should be added to the cost of the candy. Bonuses to employees should follow the distribution of regular wages paid to those employees who received the extra remunera-

(*Continued on page* 32)

# The L. R. B. & M. Journal

**Published by Lybrand, Ross Bros. and Montgomery, for free distribution to members and employees of the firm.**

**The purpose of this journal is to communicate to every member of the staff and office plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvements; to encourage and maintain a proper spirit of cooperation and interest and to help in the solution of common problems.**


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## Houston Office

On October first, we shall open an office in the city of Houston, Texas. That city is not far from the historic battlefield of San Jacinto, which gave birth to Texas, New Mexico, Arizona, California, Utah, Nevada, Colorado and portions of Oklahoma, Kansas and Wyoming.

It will be under the personal supervision of the Texas partners, William P. Peter, a resident of Texas since 1892, Albert G. Moss since 1911 and J. F. Stuart Arthur since 1919, while Theodore W. Mohle, born in Lockhart, Texas, in 1897 and trained in the office of Lybrand, Ross Bros. & Montgomery, will occupy the position of Resident Manager. All of these gentlemen have a wide acquaintance in Texas.

The future growth and progress of Houston is not to be questioned. This fact is based upon the farsightedness, courage and energy of its founders, their sons and grandsons, who saw the

wonderful advantages to be derived from the conversion of Buffalo Bayou into a ship channel, thereby making Houston a first class port and placing it in closer contact with all other ports of the world. Houston will also be located on the Inter-Coastal Canal, thus connecting it with the Great Lakes and the entire Mississippi Valley and assuring it cheaper transportation for its raw materials.

Houston is both a surprise and a pleasure to any visitor who may be unprepared to find such an important business and banking center, coupled with beautiful modern homes surrounded by trees and flowers that radiate the glory of the temperate and semi-tropical zones. The parks and public buildings bear eloquent testimony to the many citizens who have thus shown their fullest appreciation of the city's kindness to them.

Galveston, the oldest port in Texas, is located on the coast fifty miles south of Houston and possesses the very best of port facilities with a landlocked harbor. Through its fine roadstead the ocean liner finds its way to Houston; this fact has created a spirited rivalry between the oldest and newest ports on the Gulf of Mexico. At one time all of the supplies for Texas were handled by Galveston, and it yet does an extensive jobbing and banking business. It is interesting to note that, although Texas is thought of by many as being a newer section of our country, its coast was first settled in 1541. Last year Boston celebrated its 300th anniversary. In ten years from now Texas will celebrate the 400th anniversary of its first settlement.

The citizens of Galveston have always had an unbounded faith in its future and have never failed to back it with their honor and purse. Galveston is known as the Oleander City; these beautiful trees and the stately palms supply much of the shade and are a continual source of pleasure to the many visitors who come to enjoy one of the finest bathing beaches in America, both summer and winter.

Adjacent to and trading with Houston and Galveston are the well known cities of Beaumont, Port Arthur, Corpus Christi, Austin and Brownsville, besides many other smaller cities. These two enterprising coast cities enjoy an extensive trade territory, being nearly three hundred miles south of Dallas and Forth Worth and about the same distance east of San Antonio and west of New Orleans. Distance is a matter of small consequence in Texas.

Much of the Houston and Galveston territory is semi-tropical, permitting the growth of winter vegetables and fruits that find a ready market in the Northern cities, which cities also take large quantities of the late fall and early spring flowers. Besides this feature, the South Texas territory is rich in cattle, pine lumber, resin, turpentine, sulphur, oil, sugar, rice, cotton, grain and forage; in fact, producing many things not to be had elsewhere and almost anything that may be grown anywhere.

## Notes

The Board of Regents of New York State has appointed Colonel Montgomery a member of the Council of Accountancy for a term of three years from August 1, 1931, pursuant to the following provision of the New York Certified Public Accountant Law:

**Council on accountancy.** The regents may at any time appoint a council on ac-

countancy to advise with the department, the board, and any other public officers concerning any and all matters within the purview of this article and the enforcement thereof. The persons so appointed shall be certified public accountants eminent in the profession of accountancy.

Although the above provision was included among the 1929 amendments of the law, the Regents have not heretofore exercised their authority to make the appointments for such a council. Its creation is of the utmost importance as an aid to the administration of the New York C. P. A. law.

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Mr. Ross was Chairman of the Committee on Meetings of the Sixteenth Annual Meeting of the American Institute of Accountants held at Philadelphia on September 15th and 16th. Mr. Lybrand was elected a member of the Council of the Institute for a term of five years. Mr. Staub read a paper entitled, "Some Difficulties Arising in Consolidated Financial Statements."

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Mr. M. C. Walker, of our Boston office, recently completed more than twelve months' service for the New England Governors' Railroad Committee. He assisted in the preparation of a report, published early in May, dealing with the New England railroads and containing recommendations for a policy with respect to consolidation and ownership.

The following paragraph appears in the report:

> . . . the Committee has had the assistance of Mark C. Walker, an accountant furnished by Messrs. Lybrand, Ross Bros. & Montgomery. This firm has also contributed its services in an advisory capacity.

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Mr. Louis Kork, manager of our Portland office, has been elected president of the Oregon Society of Certified Public Accountants. Mr. Kork is also treasurer of the Portland Junior Chamber of Commerce, which he helped to organize.

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Mr. Hood has been elected a member of council for two years, and Mr. Russell a member of the Committee on Professional Ethics of the Pennsylvania Institute of Certified Public Accountants.

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Mr. Donald P. Perry, one of our partners, and Mr. A. E. Hunter, of our Boston office, have been elected vice-president and secretary, respectively, of the Massachusetts Society of Certified Public Accountants.

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The following excerpt from the N. A. C. A. Bulletin regarding this year's annual meeting of the National Association of Cost Accountants should be of interest to our organization:

> Of course, every big gathering of this kind has to be run by an organization and an organization is no good unless it has a mainspring. We were mighty fortunate this year to have a mainspring that was well wound up and ready to go at a moment's notice in our genial friend Bill Marsh, the resident partner of Lybrand, Ross Bros. and Montgomery. Bill has been working like a junior accountant without an adding machine for many months getting this thing lined up and the smooth and efficient way in which his organization functioned was a real tribute to his work. That smile of his and his pleasing manner made everybody glad that he had come to Pittsburgh.

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Mr. Lester F. Blake, of our Boston office, has been elected president of the Boston Chapter of the National Association of Cost Accountants, and Mr. J. W. Conrad, of our Rockford office, has been elected Director of Meetings of the Rockford Chapter of that organization. Mr. D. M. Russell, one of our

partners, has been elected a director of the Philadelphia Chapter and Mr. A. R. Kassander, of our New York office, has been elected a director of the New York Chapter.

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Mr. H. F. Kennard, of our Portland office (formerly at our San Francisco office), participated in the Northwest Convention of Certified Public Accountants in the latter part of June by presenting a paper on the California Franchise Tax Act.

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Mr. Edwin B. Cassidy, of our Los Angeles office, has been reelected a director of the California State Society of Certified Public Accountants. Mr. Gibson has been appointed a member of the legislation committee of the Los Angeles chapter of the Society.

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Mr. Frederick J. Knoeppel, of our Los Angeles office, has been appointed a member of the Convention Program Committee of the Society of Industrial Engineers. The convention will be held in Newark, New Jersey, October 14, 15 and 16, 1931.

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Mr. Hugh A. White, a member of the staff of the Detroit office, passed the May C. P. A. examinations in Michigan.

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## A Review of "Distribution Cost Problems of Manufacturing Confectioners"

(*Continued from page* 28)

tion. Financial salaries should be allocated according to the services rendered to the factory and to the distribution departments. General salaries and expenses contributing to factory administration and sales or distribution activities should be apportioned between the two. Every item in an expense account should be analyzed to ascertain its function.

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The bulletin reports seventeen interesting findings relative to distribution costs. One of them is that "firms exploiting territories beyond 1,000 miles from the point of manufacture found that profits (on such sales) were unsatisfactory and in many instances losses were incurred. This finding is based upon a comparison of distribution costs with the profit margin. The latter is equal to the difference between sales value and manufacturing costs. The sales revenue and distribution costs used in the comparison are those applicable to distances in excess of 1,000 miles from the factory. The manufacturing costs are standard costs adjusted for under- or over-absorbed overhead expenses. This kind of analysis may give an accurate perspective of conditions as viewed from one angle, but there is an alternative viewpoint which the Department has not mentioned.

Assume that a company has a reasonable volume of sales within a radius of 1,000 miles from its factory and the management decides that profits might be increased by extending this radius. It might reason that manufacturing overhead costs were covered by its existing business and, therefore, that any superimposed production would require little additional overhead expense. It might estimate that this saving in overhead costs would more than offset increases over the usual distribution costs resulting from exploitation of a more remote territory. Actual costs as used by the Department show the picture in one light, but executive decisions should rest in part upon the further consideration just pointed out.